

EX PARTE OR LATE FILED

U S WEST, Inc.  
Suite 700  
1020 Nineteenth Street, NW  
Washington, DC 20036  
202 429-3106  
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**USWEST**

**RECEIVED**

NOV 28 1994

Cyndie Eby  
Executive Director-  
Federal Regulatory

EX PARTE

November 28, 1994

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

DOCKET FILE COPY ORIGINAL

Mr. William F. Caton  
Acting Secretary  
Federal Communications Commission  
1919 M Street, NW, Room 222, SC-1170  
Washington, DC 20554

Re: CC Docket 94-128

Dear Mr. Caton:

The attached material was provided today to Ms. Kathleen M. H. Wallman by U S WEST Communications, Inc.

In accordance with Section 1.1206(a) of the Commission's Rules, an original and one copy of this information are being filed with your office. Please include a copy of this letter and the attachments in the record in the above-referenced proceeding.

Acknowledgment and date of receipt of this transmittal are requested. A duplicate letter is attached for this purpose.

Please contact the undersigned if you have any questions.

Sincerely,

*Cyndie Eby*

Attachments

cc: Ms. Kathleen M. H. Wallman

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

Ms. Kathleen M. H. Wallman  
Chief, Common Carrier Bureau  
Federal Communications Commission  
1919 M Street, NW, Room 500  
Washington, DC 20554

RE: CC Docket No. 94-128

Dear Ms. Wallman:

In accordance with the Order designating issues for investigation in the above-referenced docket, released November 8, 1994, In the Matter of Open Network Architecture Tariffs of U S WEST Communications, Inc., U S WEST hereby presents the Arthur Andersen & Co. proposal for staff review.

U S WEST Communications, Inc. has retained the services of Arthur Andersen & Co. to perform all auditing and reporting duties specified in the Order. All Bureau inquiries concerning the work performed in this matter by the auditing firm may be directed to:

Arthur Andersen & Co.  
Attn: James E. Farmer  
33 West Monroe St.  
Chicago, IL 60603  
Telephone: (312) 507-6641  
Facsimile: (312) 507-0520

Acknowledgment and date of receipt of this letter are requested. A duplicate letter is attached for this purpose. If there are any questions regarding this notice, please call me.

Sincerely,

*Cyndie Eby*

**Attachments**

cc: Mr. James E. Farmer  
International Transcription Service  
Tariff Division

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OFFICE OF SECRETARY

**Proposed Approach**  
**for the**  
**Independent Review of US WEST's Revised Switching Cost Model**

**Prepared by Arthur Andersen**  
**November 28, 1994**

The FCC's Order Designating Issues for Investigation in CC Docket No. 94-128 (paras. 18 and 19) requires the independent auditor selected by US WEST to provide staff a proposal of its approach for addressing issues raised by staff with respect to US WEST's revised Switching Cost Model (SCM) and cost support for Transmittal No. 446. As in Arthur Andersen's original review of Bellcore's Switching Cost Information System (SCIS) and SCM, we presume this review will be performed in camera for the benefit of staff. If disclosure of the review or its findings is required, we also presume the similar redaction and other protection will be provided of proprietary information in this review.

Following is an outline of Arthur Andersen's proposed approach for the review.

**Item 1: "determining, on an in camera basis and subject to supervision by Commission staff, all the ways US West can manipulate the updated SCM software to reflect assumptions US West can make regarding its network, as well as differences between the ONA rates originally submitted by US West and those submitted in Transmittal No. 446;"**

Arthur Andersen's understanding of the staff's intent for this item is to identify all the options which a US WEST service cost analyst using SCM has in computing unit investments for ONA rates. These options may include, for example:

- *Cost methodologies* - such as long run incremental costs (LRIC) versus average LRIC.
- *Switch technologies* - 5ESS, DMS-10, DMS-100 and others.
- *Planning periods*.
- *Cost factors* - such as discounts, costs of money and others.

Model options, therefore, represent the individual model selections and input items which must be specified by the analyst to compute unit investments. As part of our review, we propose to rank the options in terms of their significance on unit investment results.

With regard to the second part of Item 1, it is our interpretation the staff also requires all differences be identified in model options selected in the original ONA rate filing and Transmittal No. 446. We assume differences in model options are to be identified only for BSE rates which were based on SCM - Core and Features studies in both the original

and revised rate filings. (The Arthur Andersen "Independent Review of SCIS/SCM Report" (7/94) identified six BSEs studied using SCM - Core and Features.)

To satisfy these requirements Arthur Andersen proposes the following approach.

1. Obtain copies of SCM software and model documentation for the model versions used in developing BSE rates in the original and revised rate filings. Verify versions of software provided are the same as those used to develop unit investments underlying filed rates.
2. Review model documentation and actual computer screens produced by the software used for the *revised rate filing* to identify all options in running the models. Prepare listing of options for each switch system model. Per staff's requirement to closely supervise the review, the listing of model options will be reviewed with US WEST and staff.
3. For each option:
  - Determine the relevance of the option.
  - Define the meaning of terminology related to the model option; e.g., LRIC - Average.
  - Identify the possible choices available to the service cost analyst.
  - Determine the ranges of permissible values, if applicable.
4. Repeat steps 2 and 3 for the SCM model used in the *original rate filing*, and identify all differences in options, or options selected, for BSEs in which SCM - Core and Features was used in both the original and revised rate filings. Review findings with US West and staff.
5. Document the model options in the two versions of SCM, the differences in options between the models, and differences in options selected between the original and revised rate filings.

**Item 2: "determining whether US WEST complied with directions in the ONA Final Order to correct its ratemaking methodologies;"**

Arthur Andersen understands it is to review the ONA Final Order, US WEST's Transmittal No. 446, the company's response to this order, and relevant company studies, workpapers, etc. to determine whether US WEST has made reasonable modifications for "corrections in ratemaking methodologies." We understand our review is to address the specifics of corrections made by US WEST at the direction of staff, rather than general ratemaking principles.

The following steps are proposed to meet this requirement.

1. Obtain and review the ONA Final Order to identify "corrections in ratemaking methodologies" required of US WEST. Arthur Andersen assumes

the items to be addressed are those in this order's Designation of Issues (paras. 7-17). This is to be verified with US WEST and staff.

2. Review US WEST's Transmittal No. 446 to understand the company's response to the required corrections. Review the Designation of Issues and discuss with US WEST and staff to better understand the nature of the issues raised by staff and their disposition by US WEST.

3. Review US WEST's response to the Designation of Issues (to be filed 120 days after the order) and relevant underlying studies, workpapers, etc. to determine whether US WEST has complied with the directions in the ONA Final Order.

4. Provide a written assessment of the reasonableness of US WEST's corrections for each issue in the Designation of Issues.

**Item 3: "comparing unit investment figures generated by SCM and SCIS for basic service elements specified by Commission staff."**

We assume the objective for this item is to determine differences in unit investments produced by the revised SCM model and the SCIS model. We also assume the comparison is to be with the version of SCIS in effect at the time of US WEST's cost studies underlying Transmittal No. 446, rather than versions of SCIS used in the original RBOC ONA tariff filings.

In Arthur Andersen's initial review of SCIS and SCM an attempt was made to run the two models with a common set of test data to determine differences in unit investment estimates. This could not be done because of substantial differences in the input data sets; i.e., it was not possible to develop a common input data set.

We will attempt to compare unit investments generated by the revised SCM and SCIS for selected BSEs again using common input data. If this is not possible, a comparison of the cost algorithms incorporated in the two models will be made to determine probable differences in unit investment estimates. We intend to discuss the number and selection of BSEs for the comparison with US WEST and staff so that we have a clear understanding of the scope of this part of the review.

**Paragraph 20. "the auditing firm should describe in its report the effects on unit investments of changes in assumptions made within the updated SCM model"**

Arthur Andersen assumes the "changes in assumptions" which are of interest are (1) changes in study assumptions, such as costs of money, discount rates, etc., between the original and revised rate filings and (2) changes in modeling "assumptions". The latter might relate, for example, to the treatment of discounts, spare capacity, etc. In either case, changes in assumptions may cause changes in BSE unit investment estimates. Our review will identify differences in the unit investments for BSEs studied using SCM in the original and revised rate filings.

We would not anticipate these sensitivity analyses to be as involved as in our original review in which the analyses were to explain sources of differences among RBOC unit investments and costs. In this case the scope is to be limited to identifying the effect of changes of assumptions within the revised SCM model on unit investments.

#### **Reliance on the original Arthur Andersen report ...**

Arthur Andersen will address the issues raised by staff objectively and thoroughly. In some cases, we may refer to review procedures, documentation, data and findings from the initial review. When this is the case, we will describe how this information was used and its significance in this review.

#### **Schedule for the Review**

Arthur Andersen's review will include a review of materials which will be prepared by US WEST for its direct case; therefore, our work schedule partially will depend upon US WEST's schedule. Our objective, though, will be to complete the review by 120 days from the release of the order.